

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on March 14, 2001 at 8:00 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Alvin Ellis Jr., Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Mack Cole (R)
Sen. Pete Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)
Sen. Emily Stonington (D)

Members Excused: Sen. Dan Harrington (D)

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Deb Thompson, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: Senate Bill 498, 3/9/2001;
House Bill 247, 3/6/2001;
House Bill 548, 3/5/2001
Executive Action: House Bill 247 Pass 8-0; House
Bill 548 Pass 8-0

HEARING ON HOUSE BILL 247

Sponsor: REPRESENTATIVE DAVE LEWIS, HD 55, Helena

Proponents: Barry Stang, St. Regis; Patrick Heffernan, Montana Logging Association; Ray Kuntz, Watkins and Shephard Trucking; Bob Gilbert, Montana Tow Truck Association; Bob Stephens, Montana Grain Grower's Association; John Youngberg, Montana Farm and

Montana Stockgrower's Association; Mary Whittinghill, Montana Taxpayer's Association; Ellen Engsted, Montana Wood Products Association

Opponents: None

Opening Statement by Sponsor: REPRESENTATIVE LEWIS presented the bill. In 1997, the state worked out an agreement with the trucking industry to convert their class 8 business equipment tax to a fee in lieu of taxes. That was done at a time when class 8 was taxed at 6%. Since then, the tax was cut in half but the fee in lieu of taxes has remained as it was in 1997. This bill would allow that fee to be cut to 3% to the equivalent of the class 8 business tax. This would be practical and fair. This industry could base their business elsewhere besides Montana. **{Tape : 1; Side : A; Approx. Time Counter : 0 - 3.8}**

Proponents' Testimony: Barry "Spook" Stang, representing the Montana Motor Carrier's Association, presented written testimony and a brochure highlighting the economic impact of trucking. **EXHIBIT (tas58a01) {Tape : 1; Side : A; Approx. Time Counter : 3.8 - 7.5}**

Patrick Heffernan, representing Montana Logging Association whose members were engaged in timber and log hauling, spoke in support of the bill. He described the necessity of fair taxation on these trucks. **{Tape : 1; Side : A; Approx. Time Counter : 7.5 - 8.1}**

Ray Kuntz, CEO of Watkins and Shephard Trucking, past president and current chairman of Montana Trucking Association and member of the executive committee of the American Trucking Association, spoke in favor of the bill. He pointed out that trucking was a major employer of Montana. A study in 1996 showed that one in eleven employees in Montana were employed in the trucking industry. Trucks move 88% of Montana's manufactured freight and some 56% of Montana communities depend totally on trucking. He argued that the trucking industry was a base industry and had a huge roll in the economy. He pointed out how easy it would be to shift those drivers to other locations outside the state. The average driver in Montana makes over \$40 thousand a year and many over \$60 thousand dollars. He said the trucking industry in Montana was in trouble. There were many carriers ready to shut down. There have been high fuel prices, skyrocketing insurance costs and a long term battle of driver shortages. **{Tape : 1; Side : A; Approx. Time Counter : 8.1 - 11.3}**

Bob Gilbert, representing the Montana Tow Truck Association, spoke in support of the bill and the fairness issue. He pointed

out almost half of the trucks were farm trucks and this would be helpful to this part of the economy.

Bob Gilbert, representing the Montana Tow Truck Association, supported the bill.

John Youngberg, Montana Farm Bureau and the Montana Stockgrower's Association, spoke in support of the bill. The farm trucks would not have the luxury of picking up and leaving the state to try and get cheaper rates. This bill was about fairness. *{Tape : 1; Side : A; Approx. Time Counter : 12.9 - 13.3}*

Mary Whittinghill, representing the Montana Taxpayer Association, said this was an equity issue. She believed it was an oversight by the 1997 Legislature.

Ellen Engsted, representing the Montana Wood Products Association, pointed out the wood products industry relied heavily on the trucking industry.

Opponents' Testimony: None

Informational Testimony: None

Questions from Committee Members and Responses: SENATOR COLE

asked about the rated capacities. **Mr. Stang** replied this was for buses and motor vehicles having a rated capacity of more than one ton. He noted this would be phased in due to the financial impact to the state.

SENATOR STONINGTON asked what had happened to the value of trucks. **Mr. Stang** replied that trucks had been taxed as business equipment property. The state had difficulty determining value with the blue books so had used the 1997 values.

SENATOR COLE asked about the trend concerning the number of trucks in the state of Montana. **Mr. Stang** replied that within the last six months there had been a trucking firm of forty trucks from Livingston that went out of business, a trucking firm in the Bitterroot went out of business and one in Great Falls had gone out of business. This would certainly indicate a reduction of the number of trucks in Montana. **Mr. Kuntz** commented that it has only been within the last six months that the decrease in numbers has occurred. The national trend has also been scaling back within the last six months due to the slowing of the economy. The long term projections, as the economy grows, there would be a need for more trucks since the rails are full. The future movement of goods and services in the country has to go on trucks. **Mr. Kuntz** stated there was an opportunity here if you

looked at the situation in the right way. If this state encouraged the trucking industry, some of these trucks would locate here and the amount of tax would increase when the economy recovered. **{Tape : 1; Side : A; Approx. Time Counter : 13.3 - 29.8}**

Closing by Sponsor: REPRESENTATIVE LEWIS closed. He said the objectives were to try to retain the jobs we have now and retain an industry that is an important part of the state. **SENATOR COLE** would carry the bill.

HEARING ON HOUSE BILL 548

Sponsor: REPRESENTATIVE JOEY JAYNE, HD 73, Arlee

Proponents: None

Opponents: None

Opening Statement by Sponsor: REPRESENTATIVE JAYNE presented the bill. She explained the bill would add to the existing code. The bill would add a statewide average effective tax rate for each class of property. The department gets this by calculating the average statewide millage by the tax valuation percentage set by statute. The purpose of the bill is to allow the Department of Revenue to produce in the regular report a chart that shows the statewide effective tax rate for each class of property. Currently we are using a taxable value percentage set by statute. For example, the business tax valuation is set at 3%. In reality when you calculate the business tax it is actually about 1.2 or 1.5%. This real tax is computed by the tax valuation percentage by the millage of an area. This is important because it will signify the actual effective tax rate. This would attract more business to Montana. There is minimal cost for the department to do this function.

Questions from Committee Members and Responses: None

Closing by Sponsor: REPRESENTATIVE JAYNE closed. She pointed out the bill would give actual tax figures and would be important for businesses who wanted to expand. **{Tape : 1; Side : B; Approx. Time Counter : 7.1 - 8.3}**

HEARING ON SENATE BILL 498

Sponsor: SENATOR DON RYAN, SD 22, Great Falls

Proponents: Dick Crofts, Commissioner of Higher Education; Lois Mueller, Provost and Vice President for Academic Affairs, University of Montana; Kathy Conover, Montana State University; Kay Unger, MEA-MFT; Sarah Cobler, Associated Students of Montana; Dustin Stewart, Montana Tech, Bozeman and Great Falls

Opponents: Matthew Cohn, Administrator Travel Montana; Jon Metropoulos, Montana Society of CPA's; Greg Vanhorsen, State Farm Insurance Company; Jacqueline Lenmark, American Insurance Association

Opening Statement by Sponsor: REPRESENTATIVE RYAN presented the bill. He noted the bill was considered a sales tax on tourists. The idea was developed by George Dennison from Missoula. The university system is in need of money. Quality education is considered an economic development tool. He pointed out one of the major problems in attaining a higher education was affordability. He described a survey that said 20% of the low income students could not find the funding at all to get into schools. He pointed out Montana was missing a resource by not taxing the tourists that come into the state. *{Tape : 1; Side : B; Approx. Time Counter : 10.9 - 14.5}*

Proponents' Testimony: Dick Crofts, Commissioner of Higher Education, supported the bill. He related a visitor story example where friends had stayed for ten days in Montana and had not paid any extra costs in the way of taxes, other than a fishing license, as they had stayed in their motorhome. He noted the increase of visitors in the coming years because of the Lewis and Clark events. *{Tape : 1; Side : B; Approx. Time Counter : 14.5 - 20.8}*

Lois Mueller, Provost and Vice President of Academic Affairs for the University of Montana, supported the legislation. She commented that investing in higher education was an essential first step to fueling the state's economy. Montana ranked 47th in the nation in per capita income. Montana ranked lowest in dollars invested in higher education. A new source of revenue would avoid additional tax burdens on Montanans.

Kathy Conover, Montana State University, urged support for the bill. She pointed out an important tax policy of "he who benefits should pay".

Kay Unger, MEA-MFT, spoke in favor of the bill.

Sarah Cobler, representing the Associated Students of the University of Montana, spoke in support of the bill. She said tourists were an untapped resource.

Dustin Stewert, representing the 15,000 students who attend Montana Tech, Montana State University in Bozeman and Montana State University College of Great Falls, spoke in favor of the bill. He asked the Committee to be realistic about the bill and the situation regarding funding of the university system. The intent of the bill was to help out those attending higher education facilities. **EXHIBIT (tas58a02) {Tape : 1; Side : B; Approx. Time Counter : 20.8 - 30.6}** He pointed out the high debt incurred by students. He stressed the need to make education affordable. Passing this bill would allow more money to flow to the university system and make education affordable.

Opponents' Testimony: None

Informational Testimony: **Matthew Cohn**, Administrator for Travel Montana, pointed out non-resident expenditures were \$1.64 billion dollars. Of this figure, \$900 million dollars would be taxable. Assuming a 4% tax rate, this would gross \$36 million. Fifty percent of the visitors choose to come visit Montana.

Jon Metropoulos, representing the Montana Society of CPA's and AIA-American Insurance Association, provided information on the bill. The society of CPA's support funding for higher education. He noted concerns about whether there was a legal problem regarding the services provided by the state and the tax. The concern is regarding the services by CPA's or lawyers rendering services to a person or corporation that is not a Montana corporation where a 4% tax would be required to be collected and transferred to the state. There may not be any demonstration that the party represented had used any services from any government in the state of Montana. He suggested a possible amendment to exclude those types of services from this tax. **{Tape : 2; Side : A; Approx. Time Counter : 5.5 - 8.2}**

Greg Vanhorsen, State Farm Insurance Company, said he was concerned there was double taxation on insurance companies. Premium taxes were paid on volume in lieu of taxes. He pointed out that not all the work he did was pursuant to a contract for insurance. There were times he represented the company at the legislature, in front of a regulator, or brought lawsuits or challenged rules based on statute and these did not qualify as a contract for insurance. He asked the committee to consider an amendment to address his concerns. **{Tape : 2; Side : A; Approx. Time Counter : 8.2 - 12}**

Questions from Committee Members and Responses: SENATOR BOHLINGER

asked what goods and services would be taxed. **SENATOR RYAN** replied that a list could be formed of what would be taxed. The bill was drafted so options could be defined. He pointed out restaurant sales totaled one billion dollars. **SENATOR BOHLINGER** asked about the use of an identification card. **SENATOR RYAN** said the use of a Montana drivers license could be used to keep expenses down.

SENATOR ELLINGSON asked about this tax generating money for the university system. He pointed out the past policy of the Board of Regents regarding revenue and taxation issues. He was concerned about cuts to the revenue base of the state of Montana versus the appropriations that could be given to the university system. He asked what the impact would be on tuition for students and professor salaries. **Mr. Crofts** described the needs of the university system. They had budgetary, firm obligations for the next biennium of \$41 million dollars. This would include about \$8 million dollars in increased utility costs. He noted that about one half of the money for the university system came from state support, general fund and millage, and about half came from tuition. The only place they could go to resolve a shortfall would be a tuition increase. They are looking at a 9% increase in tuition, which could be altered by program reductions. **{Tape : 2; Side : A; Approx. Time Counter : 17.5 - 27.0}**

SENATOR COLE noted that if this bill passed it would provide more money than the university system needed. He asked where the surplus money would be used. **SENATOR RYAN** commented that K-12 could be funded, however the university system would get stuck with higher energy costs and the impact of that was not known. The money should be left for the university system to meet their needs and to grow and develop a better university system with the possibility of reducing tuition to be more affordable. **{Tape : 2; Side : B; Approx. Time Counter : 0 - 3}**

SENATOR COLE asked for a response. **Mr. Crofts** clarified the \$41 million dollars would keep the university system at its current level but would not provide extra to catch up to other states.

SENATOR BOHLINGER commented that the most critical number on the Montana Financial Aid sheet showed that tuition had more than doubled in the past eight years.

Closing by Sponsor: **SENATOR RYAN** closed. He noted there were fixed costs at the universities that they had no control over. He talked about the variety of students that were a factor in economic development.

EXECUTIVE ACTION ON HOUSE BILL 247

SENATOR COLE MOVED DO CONCUR. The question was called. The motion **PASSED** 8-0, with **SENATOR HARRINGTON** being absent.

EXECUTIVE ACTION ON HOUSE BILL 548

SENATOR GLASER MOVED DO CONCUR. The question was called. The motion **PASSED** 8-0 with **SENATOR HARRINGTON** being absent.

ADJOURNMENT

Adjournment: 9:44 A.M.

SEN. BOB DEPRATU, Chairman

DEB THOMPSON, Secretary

BD/DT

EXHIBIT (tas58aad)